

**SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.****FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT****Year Ended December 31, 2004**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7-6-05

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Southwest Louisiana Legal Services Society, Inc.  
Lake Charles, Louisiana

We have audited the accompanying statements of financial position of Southwest Louisiana Legal Services Society, Inc. (a non-profit organization) as of December 31, 2004 and 2003 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Louisiana Legal Services Society, Inc. as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 8, 2005, on our consideration of Southwest Louisiana Legal Services Society, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McMullen and Mancuso, CPAs

*McMullen and Mancuso, CPAs*

April 8, 2005

Members  
American Institute of Certified Public Accountants  
Louisiana Society of Certified Public Accountants

**SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.**

**STATEMENT OF FINANCIAL POSITION**

**As of December 31, 2004 and 2003**

	<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$	40,031	\$ 18,779
Restricted Cash - Client Escrow Funds		15,420	24,617
Accounts Receivable		30,705	39,202
Grants Receivable		18,841	6,972
Unconditional Promise to Give		50,000	50,000
Receivable - Arcadian Settlement		237,565	-
Due From Employees		100	287
Miscellaneous Receivable		579	
Prepaid Expenses		2,995	1,117
Total Current Assets		<u>396,236</u>	<u>140,974</u>
<b>Property and Equipment</b>			
Furniture, Fixtures, and Equipment		153,609	151,132
Accumulated Depreciation		(143,423)	(133,205)
Law Library		139,840	139,840
Total Property and Equipment		<u>150,026</u>	<u>165,676</u>
<b>Other Assets</b>			
Deposits		1,075	1,075
Other Receivable		5,609	7,909
Total Other Assets		<u>6,684</u>	<u>8,984</u>
<b>Total Assets</b>	\$	<u><u>552,946</u></u>	\$ <u><u>307,725</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$	12,460	\$ 11,952
Accrued Liabilities		16,579	8,972
Client Trust Deposits		16,117	25,313
Total Current Liabilities		<u>45,156</u>	<u>46,237</u>
Total Liabilities		<u>45,156</u>	<u>46,237</u>
<b>Net Assets</b>			
Unrestricted		220,225	211,488
Temporarily Restricted		287,565	50,000
Total Net Assets		<u>507,790</u>	<u>261,488</u>
<b>Total Liabilities and Net Assets</b>	\$	<u><u>552,946</u></u>	\$ <u><u>307,725</u></u>

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2004 and 2003**

	<u>2004</u>			<u>2003</u>
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>TOTAL</u>
<b>PUBLIC SUPPORT AND REVENUES</b>				
Government Grants	\$ 182,379	\$ -	\$ 182,379	\$ 117,500
Other Grants	-	-	-	7,613
Contributions	1,154	237,565	238,719	-
United Way Contributions	-	50,000	50,000	100,000
In Kind Contributions (Note C)	70,377	-	70,377	96,176
Operating Income - Fees	223,170	-	223,170	207,061
Miscellaneous Income	66	-	66	158
Net Assets Released From Restrictions	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenues	527,146	237,565	764,711	528,508
<b>EXPENSES</b>				
Program Service	412,526	-	412,526	403,516
Supporting Services: Management and General	<u>109,301</u>	<u>-</u>	<u>109,301</u>	<u>55,439</u>
Total Expenses	<u>521,827</u>	<u>-</u>	<u>521,827</u>	<u>458,955</u>
<b>CHANGE IN NET ASSETS</b>	5,319	237,565	242,884	69,553
<b>NET ASSETS AT BEGINNING OF YEAR, AS ORIGINALLY REPORTED</b>	211,488	50,000	261,488	178,957
<b>PRIOR PERIOD ADJUSTMENTS (Note H)</b>	<u>3,418</u>	<u>-</u>	<u>3,418</u>	<u>12,978</u>
<b>NET ASSETS AT BEGINNING OF YEAR, AS RESTATED</b>	<u>214,906</u>	<u>50,000</u>	<u>264,906</u>	<u>191,935</u>
<b>NET ASSETS AT END OF YEAR</b>	\$ <u>220,225</u>	\$ <u>287,565</u>	\$ <u>507,790</u>	\$ <u>261,488</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year ended December 31, 2004 and 2003

	Program Services	Supporting Services	Total Program and Supporting Service Expense	
			2004	2003
Salaries	\$ 219,953	\$ 75,643	\$ 295,595	\$ 115,265
Payroll Taxes	14,802	5,090	19,892	9,991
Employee Benefits	38,733	13,321	52,054	53,120
Contractual Services	9,988	-	9,988	133,380
Advertising	1,548	172	1,720	2,490
Bank and Retirement Plan Fees	2,248	-	2,248	3,360
Equipment Rental and Maintenance	12,083	1,343	13,425	10,239
Insurance	6,594	530	7,124	7,677
Library Maintenance	2,289	-	2,289	-
Litigation Cost	2,532	-	2,532	15,021
Membership Fees	2,238	-	2,238	2,788
Other Costs	1,555	273	1,828	3,036
Office Supplies & Expense	8,398	933	9,331	6,161
Postage and Shipping	3,416	380	3,796	2,578
Professional Fees	7,000	-	7,000	6,200
Rent	48,157	8,498	56,655	62,014
Telephone	5,053	892	5,945	4,812
Travel & Training	17,255	694	17,949	10,373
Total Before Depreciation	403,841	107,768	511,610	448,505
Depreciation	8,685	1,533	10,217	10,450
Total Expenses	\$ 412,526	\$ 109,301	\$ 521,827	\$ 458,955

The accompanying notes are an integral part of these financial statements.

**SOUTHWEST LOUISIANA LEGAL SERVICES SOCIETY, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 242,884	\$ 69,553
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation Expense	10,217	10,451
(Increase) Decrease in Assets:		
Restricted Cash - Client Escrow Funds	9,197	4,866
Receivables	1,768	(17,063)
Unconditional Promise to Give	-	(50,000)
Receivable - Arcadian Settlement	(237,565)	-
Due from Employees	187	502
Prepaid Expenses	(1,878)	7,105
Increase (Decrease) in Liabilities:		
Accounts Payable	508	9,957
Accrued Liabilities	7,607	(1,920)
Client Trust Deposits	<u>(9,196)</u>	<u>(4,867)</u>
Net Cash Provided by Operating Activities	23,729	28,584
<b>Cash Flows From Investing Activities</b>		
Purchase of Equipment	<u>(2,477)</u>	<u>(4,448)</u>
Net Cash Used by Investing Activities	(2,477)	(4,448)
<b>Cash Flows From Financing Activities</b>		
Forgiveness of United Way Loan	<u>-</u>	<u>(20,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>(20,000)</u>
Net Decrease in Cash and Cash Equivalents	21,252	4,136
Cash and Cash Equivalents, Beginning January 1, 2003	<u>18,779</u>	<u>14,643</u>
Cash and Cash Equivalents, Ending December 31, 2004	\$ <u>40,031</u>	\$ <u>18,779</u>

The accompanying notes are an integral part of these financial statements.

**Southwest Louisiana Legal Services Society, Inc.**  
**Lake Charles, Louisiana**

**Notes to the Financial Statements**  
**December 31, 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization and Purpose  
Southwest Louisiana Legal Services Society, Inc. (SWLLS) is a non-profit corporation organized for the purpose of providing legal assistance in non-criminal proceedings or matters to persons unable to afford such services. The following describes briefly certain significant accounting policies.
2. Basis of Accounting  
The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
3. Financial Statement Presentation  
The financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117 Southwest Louisiana Legal Services Society, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represent the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represent resources restricted by donor's as to purpose or by the passage of time; and permanently restricted net assets, which represent resources whose use by the organizations is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization did not have any permanently restricted net assets this year.
4. Restricted Cash – Client Escrow Funds  
Monies deposited with Southwest Louisiana Legal Services Society, Inc. by its clients are deposited into separate cash accounts to be used only in connection with the related litigation.
5. Concentration of Revenue and Support  
A large portion (42%) of the revenue and support for the Organization in 2004 was provided by fees generated for legal services from the geographic region of Southwest Louisiana encompassing five parishes. If the Organization were no longer able to generate fees for legal services, the operations of the Organization could be adversely impacted.



**Southwest Louisiana Legal Services Society, Inc.  
Lake Charles, Louisiana**

**Notes to the Financial Statements  
December 31, 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**6. Public Support and Revenue**

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or the grantor.

The Organization receives funding primarily from various federal, state and local grants, as well as the United Way of Southwest Louisiana.

**7. Income Taxes**

Southwest Louisiana Legal Services Society, Inc. is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code and, accordingly, no provision for income taxes is included in the financial statements. In addition, Southwest Louisiana Legal Services Society, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) (2) of the Code.

**8. Property and Equipment**

Property and equipment are recorded at cost, when purchased, or if donated, at the estimated fair value on the date of donation. All acquisitions in excess of \$250 and all expenditures for repairs, maintenance, renewals, and betterment that materially prolong the useful lives of assets are capitalized. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method and amounted to \$10,217 for the year ended December 31, 2004. The following is a summary of the estimated useful lives used:

Furniture and equipment	3-10 years
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**9. Law Library**

Southwest Louisiana Legal Services Society, Inc. capitalizes the costs of books, reference materials, and multiple volume sets of law books. Southwest Louisiana Legal Services Society, Inc. estimates that the salvage value of its law library approximates the original cost and, accordingly, depreciation expense is not recorded.

**10. Cash and Cash Equivalents**

For reporting purposes, cash and cash equivalents include demand deposits and certificates of deposit with an original maturity of 90 days or less.

**11. Accounts Receivable**

Accounts receivable are stated at unpaid balances for services of which a contract has been signed and/or a statement has been issued. The Agency provides for losses on accounts receivable using the direct write-off method which management believes to closely approximate GAAP. GAAP requires the allowance method to provide for doubtful accounts. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**Southwest Louisiana Legal Services Society, Inc.**  
**Lake Charles, Louisiana**

**Notes to the Financial Statements**  
**December 31, 2004**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

12. **Promises to Give**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

13. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

14. **Advertising Costs**

Advertising costs are charged to operations when incurred. Total advertising costs for the year ended December 31, 2004 were \$1,720.

**NOTE B - ACCRUED LIABILITIES**

Included in accrued liabilities is annual leave, which vests with the employee and is payable upon termination totaling \$5,285 at December 31, 2004. Maximum annual leave amounts, which can be carried over to subsequent years, are 7.5 days per employee without board approval. Also included in accrued liabilities is \$8,480 of accrued wages and salaries at December 31, 2004. The remaining balance in accrued liabilities represents payroll taxes and payroll withholdings.

**NOTE C - IN KIND CONTRIBUTIONS**

Contributed services and space are recognized both as support and expenses and therefore do not affect Southwest Louisiana Legal Services Society, Inc.'s net assets. Contributed services have been recognized for legal and supervisory services provided by the director of the Agency and are valued at the rate normally charged in this area for similar services. Contributed space is valued at rates normally charged for comparable space. Contributed materials are valued at fair market value at the date of donation.

In Kind Contributions received during the year ended December 31, 2004 were valued as follows:

Contract Services	\$ 30,000
Donated Space	<u>40,377</u>
Total	\$ 70,377

**Southwest Louisiana Legal Services Society, Inc.**  
**Lake Charles, Louisiana**

**Notes to the Financial Statements**  
**December 31, 2004**

**NOTE D - LEASE OF FACILITIES**

Southwest Louisiana Legal Services Society, Inc. entered into a one-year lease agreement on January 8, 2004, beginning January 1, 2004 until December 31, 2004, with an optional continuance on a month-to-month basis beginning January 1, 2005 for the rental of office space in Magnolia Life Building, Lake Charles, Louisiana for \$1,250 per month. Rent expense for the year ended December 31, 2004 was \$15,000.

**NOTE E - RETIREMENT PLAN**

Effective April 1, 1995, Southwest Louisiana Legal Services Society, Inc. established a 403 (b) retirement plan for those employees who meet the eligibility requirements set forth in the plan. The amount of employer contributions to the plan is equal to fifty percent of the basic employee contribution made by each participant during the plan year (up to 3% match). No contributions were made to the plan for the year ended December 31, 2004.

**NOTE F - GRANT FUNDS RECEIVABLE**

The following details grant funds receivable as of December 31, 2004:

**Funding Source**

U.S. Department of Housing and Urban Development Supportive Housing Program	\$ 6,034
State of Louisiana Department of Health and Hospitals Office of Public Health	4,923
State of Louisiana Department of Social Services Office of Family Support	88
City of Lake Charles Emergency Shelter Grant	7,496
Jeff Davis Council on Aging, Inc.	300
Total	\$ 18,841

**NOTE G - OPERATING LEASE COMMITMENT**

Southwest Louisiana Legal Services Society, Inc. leases office equipment under a non-cancelable operating lease with a term of 60 months. Rent expense for the year ended December 31, 2004 was \$9,045. The following is a schedule by years of future minimum rentals under the lease at December 31, 2004:

Due December 31,	
2005	\$ 8,304
2006	2,768
Total Minimum Lease Payments	\$ 11,072

**Southwest Louisiana Legal Services Society, Inc.  
Lake Charles, Louisiana**

**Notes to the Financial Statements  
December 31, 2004**

**NOTE H - PRIOR PERIOD ADJUSTMENTS**

During the year ended December 31, 2004, Southwest Louisiana Legal Services Society, Inc. discovered errors made in the prior period. The Organization erroneously understated grants receivable and revenues by \$3,418. Adjustments correcting these errors resulted in an increase of that amount to unrestricted net assets as of December 31, 2004.

**NOTE I - UNCONDITIONAL PROMISE TO GIVE**

During the year ended December 31, 2004, the Organization received its United Way allocation. This allocation is temporarily restricted as to time of receipt and is properly reflected in the accompanying Statement of Activities as an increase in temporarily restricted net assets. The amount to be received in less than one year is \$50,000.

**NOTE J - RECEIVABLE - ARCADIAN SETTLEMENT**

On December 20, 2004, a court order was issued by the 14<sup>th</sup> Judicial District Court, Parish of Calcasieu, State of Louisiana awarding Southwest Louisiana Legal Services Society, Inc. a judgment to provide for legal services in the Westlake, LA and North Lake Charles, LA areas as well as to develop offices in those areas. The judgment amount, \$237,565.41 was disbursed to the Organization on December 29, 2004, and is properly reflected in the accompanying Statement of Activities as an increase in temporarily restricted net assets, and in the accompanying Statement of Financial Position as a receivable at December 31, 2004.

**NOTE K - CONCENTRATION OF RISK**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of promises to give receivable. Amounts receivable from promises to give at December 31, 2004 consists of \$50,000 from the United Way of Southwest Louisiana.

**NOTE L - FUNCTIONAL ALLOCATION OF EXPENSES**

Expenses were allocated in the accompanying financial statements to program and support services functional expense groups. The methods of allocation were based on the Organization's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Organization's estimates of the amount of each expense utilized for program or support service functions.

**NOTE M-TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2004 consisted of the following:

Arcadian Settlement	\$237,565
United Way Allocation	<u>50,000</u>
Total	\$287,565

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Southwest Louisiana Legal Services Society, Inc.  
Lake Charles, Louisiana

We have audited the financial statements of Southwest Louisiana Legal Services Society, Inc. (a nonprofit corporation) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Southwest Louisiana Legal Services Society, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2004-2.

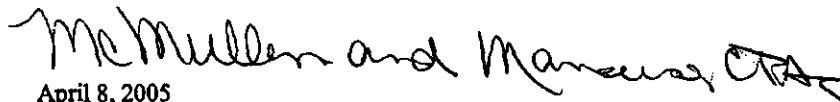
Internal Control over Financial Reporting

In planning and performing our audit, we considered Southwest Louisiana Legal Services Society, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Southwest Louisiana Legal Services, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the board of directors, management, and the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

McMullen and Mancuso, CPAs

  
April 8, 2005

Southwest Louisiana Legal Services Society, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2004

We have audited the financial statements of The Southwest Louisiana Legal Services Society, Inc. as of and for the year ended December 31, 2004, and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2004 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☒ Yes ☐ No Other Conditions ☐ Yes ☐ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

Section II Financial Statement Findings

- 2004-1 The Organization should maintain adequate controls over accounts receivable for client fees. We found that they have not implemented control procedures over accounts receivable for client fees. Accounts receivable and revenue is not properly safeguarded, which makes it susceptible to misappropriation or loss without the Organization's knowledge. Attorneys are responsible for their own billing. Information was supplied to the bookkeeper for inclusion in the accounting records as of the last day of the fiscal year only. The Organization has purchased software that can be utilized to properly maintain accounts receivable. All attorneys should utilize this application. And all deposits in the trust accounts should be reconciled to the receipts entered in the accounts receivable software.
- 2004-2 Recipients of federal funds should time their drawdown requests to ensure that Federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within 10 days. The drawdown requests on the Federal Legal Assistance for Victims Grant Program made by the bookkeeper were in excess of immediate financial need. The bookkeeper incorrectly calculated amounts to be received on the federal grant, causing the Organization to have excess Federal cash on hand. The bookkeeper should closely monitor all costs incurred with the Federal grant and time the drawdown requests accordingly.

**Southwest Louisiana Legal Services Society, Inc.**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**Year Ended December 31, 2004**

<b>SECTION I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
<b>2003-1</b> The Organization has not implemented control procedures over accounts receivable for client fees.	Unresolved; See 2004-1. Management has purchased software that can be utilized to maintain accounts receivable. All attorneys in the firm will use the software and reconciliations will be performed between deposits in trust accounts and receipts posted to the software.
<b>2003-2</b> The Organization did not submit the audit for the year ended December 31, 2003 within six months of the close of the reporting period to the Louisiana Legislative Auditor.	Resolved.
<b>SECTION II - MANAGEMENT LETTER</b>	
<b>MC-1</b> Improve the effectiveness of the Board of Directors.	Unresolved; The Organization is still in process of strengthening Board and recruiting new Board members.
<b>MC-2</b> Personal use of laptop computer by employee.	Resolved.
<b>MC-3</b> Close inactive trust bank accounts	Unresolved; Mgmt is waiting on legal guidance on distribution of funds.
<b>MC-4</b> Nepotism violation	Resolved.
<b>MC-5</b> Abatement of penalty	Unresolved; The bookkeeper will file Form 843 for possible abatement of penalties.
<b>MC-6</b> Contract audit requirement	Unresolved; Mgmt will evaluate the contracts and contact the Councils' regarding the Single Audit requirements in the contracts.
<b>MC-7</b> Inventory fixed assets	Partially Resolved; The bookkeeper has begun an inventory of the fixed assets.

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT



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April 8, 2005

To the Management and  
The Board of Directors of  
Southwest Louisiana Legal Services Society, Inc.

In planning and performing our audit of the financial statements of Southwest Louisiana Legal Services Society, Inc. for the year ended December 31, 2004, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding these matters. We previously reported on the Organization's internal control in our report dated April 8, 2005. This letter does not affect our report dated April 8, 2005 on the financial statements of Southwest Louisiana Legal Services Society, Inc.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**MC-1 - Improve the Effectiveness of the Board of Directors**

We noted that the Board of Directors does not meet regularly. The corporate by-laws require the Board to meet at least quarterly. We believe that the Board's effectiveness could be improved by considering the responsibilities of a Board and evaluating the Board member's performance in areas, such as regular attendance and participations at Board meetings.

The following are some ways in which the Board meetings could be made more productive:

- Meet regularly, at least quarterly if not monthly.
- Adhere to the agenda and defer to the next meeting matters not on the agenda or not urgent.
- Prepare written minutes with enough detail about discussions, decisions, and authorizations, and make them available to Board members before the next meeting.
- Solicit active participation in discussions of agenda items from all Board members.

The Board's effectiveness and efficiency could also be improved by establishing committees composed of members with the relevant knowledge and skills to work in key areas such as finance, facilities, personnel, and long-range planning.

**MC-2 - Close Inactive Trust Bank Accounts**

At present, the Organization maintains trust accounts that have not had any activity in the last few years. Inactive bank accounts can be susceptible to misuse by someone seeking to misappropriate cash. Thus, we recommend that management appraise the need for the existing bank accounts and as soon as legal guidance is available, distribute the monies in these accounts accordingly.

*Members*  
*American Institute of Certified Public Accountants*  
*Louisiana Society of Certified Public Accountants*

### **MC-3 -Abatement of Penalty**

During the previous audit, we noted that the Organization paid a considerable amount in penalties for Form 941 taxes that were not paid timely in previous years. As it is a large amount of money to the Organization, and reasonable cause for late payment appears to exist, we recommend the filing of Form 843 for possible abatement of penalties.

### **MC-4 -Contract Audit Requirement**

In reviewing the contract between the Southwest Louisiana Legal Society Services, Inc. and the Calcasieu Council on Aging, Inc. (CCOA), we noticed the contract calls for the Organization to have a Single Audit. However, the Organization no longer meets the requirements of a Single Audit. Therefore, we recommend the Organization evaluate their contract arrangement with the CCOA as it relates to this requirement.

### **MC-5 – Employee Disbursement Procedures**

During the review of disbursements, it was noted that the bookkeeper submitted and received a reimbursement for expenses that she did not incur. The disbursement involved a postage fee that was actually charged to the Company, and the bookkeeper mistakenly submitted it as an employee reimbursement. It was further noted that the check request was not approved by the Executive Director. This is an effective internal control over these disbursements, and, had it been followed, the expense reimbursement check may not have been issued.

### **MC-6 – Formal Cost Allocation Plan**

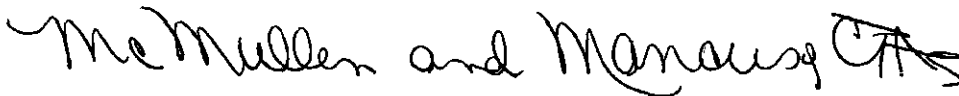
Although the Organization does have a method for cost allocation, they have not adopted a formal cost allocation plan. The growth the Organization has experienced within the past couple of years dictates that a formal plan for cost allocation be adopted and implemented. This would allow costs to be directly charged to the program to which they belong.

### **MC-7 – Improve Accounting for Grants**

The Organization does not always charge the direct salaries and other expenses to the grant for which they were incurred. The failure to do this makes monitoring of grants and the drawdown requests for grants difficult. We recommend that procedures be implemented to ensure all direct costs are captured in each grant and the Executive Director review the financial statements monthly to ensure compliance.

We wish to thank the Executive Director and the Bookkeeper for their support and assistance during our audit.

The preceding comments and recommendations are intended solely for the information and use of the Board of Directors and management, and is not intended to be used by anyone other than the specified parties.

A handwritten signature in black ink, appearing to read "McMullen and Mancuso" followed by a stylized flourish or initials.

McMullen and Mancuso, CPAs

**Southwest Louisiana Legal Services Society, Inc.**  
**MANAGEMENT'S CORRECTIVE ACTION PLAN**  
**Year Ended December 31, 2004**

<b>SECTION I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS</b>	
<b>2004-1</b> The Organization has not implemented control procedures over accounts receivable for client fees.	Management has purchased software that can be utilized to maintain accounts receivable. All attorney and paralegals will use the software, posting their time daily, and deposits in escrow accounts and receipts posted to the software will be reconciled.
<b>2004-2</b> The Organization incorrectly calculated their drawdown requests on a federal grant, causing an excess Federal cash on hand.	The bookkeeper is now scheduled to attend training sponsored by this grant, and will monitor all costs incurred and time draw-downs properly.
<b>SECTION II - MANAGEMENT LETTER</b>	
<b>MC-1</b> Improve the effectiveness of the Board of Directors.	The Organization is still in process of strengthening Board and recruiting new Board members.
<b>MC-2</b> Close inactive trust bank accounts.	Management is waiting on legal guidance on distribution of funds.
<b>MC-3</b> Abatement of penalty.	The bookkeeper will file Form 843 for possible abatement of penalties.
<b>MC-4</b> Contract audit requirement.	Management will evaluate the contracts and contact the Councils' regarding the Single Audit requirements in the contracts.
<b>MC-5</b> Employee disbursement procedures.	Management will increase petty cash and require use of company credit card, eliminating employee reimbursements.
<b>MC-6</b> Formal cost allocation plan.	Management will implement new software in combination with industry specific (nonprofit accounting) software.
<b>MC-7</b> Improve accounting for grants.	The bookkeeper is now scheduled to attend training to properly account for grants.

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT